

**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**VILLAGE OF KALEVA  
MANISTEE COUNTY**

**December 31, 2003**

Local Audit and Finance Division  
Bureau of Local Government Services

VILLAGE OF KALEVA

VILLAGE COUNCIL

Daniel Holtz  
President

Richard Schafer  
Council Member

Sandy Kaskinen  
Council Member

Dean Grossnickle  
Council Member

Jack McKinley  
Council Member

Robert Peterson  
Council Member

Andy Brown  
Council Member

Cathi Holtz  
Clerk

Judy Schafer  
Treasurer

VILLAGE POPULATION--2000  
509

TAXABLE VALUATION--2003  
\$6,709,692



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

September 30, 2004

Village Council  
Village of Kaleva  
Manistee County  
P.O. Box 21  
Kaleva, Michigan 49645

Independent Auditor's Report

Dear Board Members:

We have audited the financial statements of the Village of Kaleva, Manistee County, Michigan, as of and for the year ended December 31, 2003 as listed in the Table of Contents. These financial statements are the responsibility of the village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B, the Village of Kaleva's policy is to prepare its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described more fully in Note B, the Village of Kaleva has not maintained a record of its general fixed assets and, accordingly, the general fixed assets account group is not included in this report, as required by accounting principles generally accepted in the United States. Determination of the value of the Village of Kaleva's general fixed assets was not possible.

In our opinion, except for the effects of the omission of the general fixed assets as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances of the Village of Kaleva as of December 31, 2003, and revenues it received and the expenditures it paid for the year then ended, on the basis of accounting described in Note B.

In accordance with Government Auditing Standards, we have also issued reports dated September 30, 2004 on our consideration of the village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

We conducted our audit for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying supplemental information and schedules are presented for purpose of additional analysis and are not a required part of the financial statements of the Village of Kaleva. Such information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# VILLAGE OF KALEVA

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**VILLAGE OF KALEVA**  
**COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY**  
**ARISING FROM CASH TRANSACTIONS--ALL FUND TYPES AND**  
**ACCOUNT GROUPS**  
**December 31, 2003**

**EXHIBIT A**

	<b>PRIMARY GOVERNMENT</b>				
	<b>GOVERNMENTAL FUND TYPES</b>		<b>PROPRIETARY FUND TYPE</b>	<b>ACCOUNT GROUP</b>	
	General Fund	Special Revenue	Enterprise Fund	General Long-Term Debt	Total (Memorandum Only)
<b><u>ASSETS</u></b>					
Cash	\$ 155,708	\$ 281,821	\$ 55,859		\$ 493,388
Fixed Assets (Net)			93,495		93,495
Amount to be Provided for Retirement of Long-Term Debt				\$ 32,059	32,059
Total Assets	<u>\$ 155,708</u>	<u>\$ 281,821</u>	<u>\$ 149,354</u>	<u>\$ 32,059</u>	<u>\$ 618,942</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
Liabilities					
Installment Purchase Payable	\$ -	\$ -	\$ -	\$ 32,059	\$ 32,059
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,059</u>	<u>32,059</u>
Fund Equities					
Fund Balance	155,708	281,821			437,529
Retained Earnings			149,354		149,354
Total Fund Equity	<u>155,708</u>	<u>281,821</u>	<u>149,354</u>		<u>586,883</u>
Total Liabilities and Fund Equity	<u>\$ 155,708</u>	<u>\$ 281,821</u>	<u>\$ 149,354</u>	<u>\$ 32,059</u>	<u>\$ 618,942</u>

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF KALEVA**  
**STATEMENT OF REVENUE COLLECTED,**  
**EXPENDITURES PAID AND CHANGES IN FUND**  
**BALANCES--ALL GOVERNMENT FUND TYPES**  
**For the Year Ended December 31, 2003**

**EXHIBIT B**

	<b>PRIMARY GOVERNMENT</b>		
	General Fund	Special Revenue	Total (Memorandum Only)
Revenues			
Taxes	\$ 51,575		\$ 51,575
Licenses and Permits	155		155
State Grants	48,508	\$ 71,957	120,465
Charges for Services	20	2,715	2,735
Fines and Forfeitures	150		150
Interest and Rentals	34,416	972	35,388
Other Revenue	100	167,784	167,884
Total Revenues	134,924	243,428	378,352
Expenditures			
Legislative	2,591		2,591
General Government	27,406		27,406
Public Safety	2,598	683	3,281
Public Works	29,755	70,556	100,311
Recreational and Cultural	859	15,196	16,055
Other	4,130		4,130
Capital Outlay	599	37,617	38,216
Debt Service	12,952		12,952
Total Expenditures	80,890	124,052	204,942
Excess of Revenues Over (Under) Expenditures	54,034	119,376	173,410
Other Financing Sources (Uses)			
Operating Transfers In		10,000	10,000
Operating Transfers (Out)	(10,000)		(10,000)
Total Other Financing Sources (Uses)	(10,000)	10,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	44,034	129,376	173,410
Fund Balance--January 1, 2003	111,674	152,445	264,119
Fund Balance--December 31, 2003	\$ 155,708	\$ 281,821	\$ 437,529

**The Notes to Financial Statements are an integral part of the statement.**

**VILLAGE OF KALEVA**  
**STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID**  
**AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL**  
**GENERAL FUND AND SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended December 31, 2003**

**EXHIBIT C**

	<b>GENERAL FUND</b>			<b>SPECIAL REVENUE FUNDS</b>		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 47,000	\$ 51,575	\$ 4,575			
Licenses and Permits	300	155	(145)			
State Grants	45,400	48,508	3,108	\$ 71,210	\$ 71,957	\$ 747
Charge for Services	-	20	20	5,300	2,715	(2,585)
Fines and Forfeitures	-	150	150			
Interest and Rentals	16,000	34,416	18,416	1,650	972	(678)
Other Revenue	3,600	100	(3,500)		167,784	167,784
Total Revenue	112,300	134,924	22,624	78,160	243,428	165,268
Expenditures						
Legislative	1,500	2,591	(1,091)			
General Government	40,080	27,406	12,674			
Public Safety	3,240	2,598	642		683	(683)
Public Works	33,350	29,755	3,595	146,924	70,556	76,368
Recreational and Cultural	2,750	859	1,891	18,588	15,196	3,392
Other	13,300	4,130	9,170			
Capital Outlay	3,000	599	2,401		37,617	(37,617)
Debt Service	14,000	12,952	1,048			
Total Expenditures	111,220	80,890	30,330	165,512	124,052	41,460
Excess of Revenues Over (Under) Expenditures	1,080	54,034	52,954	(87,352)	119,376	206,728
Other Financing Sources (Uses)						
Operating Transfers In			-	30,000	10,000	(20,000)
Operating Transfers (Out)	(15,000)	(10,000)	5,000	(20,000)	-	20,000
Total Other Financing Sources (Uses)	(15,000)	(10,000)	5,000	10,000	10,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(13,920)	44,034	57,954	(77,352)	129,376	206,728
Fund Balance--January 1, 2003	75,000	111,674	36,674	89,600	152,445	62,845
Fund Balance--December 31, 2003	\$ 61,080	\$ 155,708	\$ 94,628	\$ 12,248	\$ 281,821	\$ 269,573

**The Notes to Financial Statements are an integral part of this statement.**



**VILLAGE OF KALEVA**  
**STATEMENT OF REVENUES COLLECTED, EXPENSES**  
**PAID AND CHANGES IN RETAINED EARNINGS**  
**ALL PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended December 31, 2003**

**EXHIBIT D**

	Enterprise Fund
Operating Revenues	
Charge for Services	\$ 41,577
Total Operating Revenues	<u>41,577</u>
Operating Expenses	
Wages	7,973
Supplies	9,393
Repairs and maintenance	2,530
Training	218
Utilities	3,271
Dues	1,829
Professional Services	277
Insurance	765
Depreciation	<u>3,100</u>
Total Operating Expenses	<u>29,356</u>
Net Operating Income (Loss)	<u>12,221</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>695</u>
Total Nonoperating Revenues (Expenses)	<u>695</u>
Net Income (Loss)	<u>12,916</u>
Retained Earnings--January 1, 2003	<u>136,438</u>
Retained Earnings--December 31, 2003	<u><u>\$ 149,354</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF KALEVA**  
**COMBINED STATEMENT OF CASH FLOWS**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**  
**PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended December 31, 2003**

**EXHIBIT E**

	<u>Enterprise Funds</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 41,577
Cash Payments to Employees for Services and Benefits	(7,973)
Cash Payments to Suppliers for Goods and Services	<u>(18,283)</u>
Net Cash Provided by Operating Activities	<u>15,321</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	<u>(36,972)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(36,972)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>695</u>
Net Cash Provided by Investing Activities	<u>695</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(20,956)
Cash and Cash Equivalents at Beginning of Year	<u>76,815</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 55,859</u></u>
Reconciliation of Operating Income to Net	
Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 12,221
Adjustments to Reconcile Operating Income	
to Net Cash Provided by Operating Activities	
Depreciation Expense	<u>3,100</u>
Net Cash Provided by Operating Activities	<u><u>\$ 15,321</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

## VILLAGE OF KALEVA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Kaleva (village) is located in Manistee County and provides services to approximately 500 residents in many areas including public safety, highways and streets, general administrative services, and community enrichment and development. The village was incorporated in April of 1948 and operates as a president/trustee form of government.

#### REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. Accordingly, there are no other governmental organizations required to be included in the financial statements of the village.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

The accounts of the village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained, consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village of Kaleva are recorded in separate funds and account groups, categorized as follows:

#### GOVERNMENTAL FUNDS

#### General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, state distributions, grants, and charges for services to provide for the administration and operation of general operating expenditures of the village government.

## VILLAGE OF KALEVA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Special Revenue Funds

These funds are used to account for specific revenue sources, generally derived from State and Federal grants, General Fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory, or administrative requirements.

##### PROPRIETARY FUNDS

##### Enterprise Fund

This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the village is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the village has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund is the only enterprise fund of the village.

##### ACCOUNT GROUPS

General Fixed Assets--The village did not maintain a general fixed asset account group as required by accounting principles generally accepted in the United States of America.

General Long-Term Debt--This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary funds.

##### MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

##### Governmental Fund Types

The governmental fund types (General and Special Revenue Funds) use a financial resources measurement focus and are accounted for using the cash basis of accounting, which does not conform to generally accepted accounting principles as applicable to governmental units. Under this method, revenues are recorded when received in cash, and expenditures are recorded when payment is made. Generally accepted accounting principles require that the modified accrual accounting basis be used for governmental funds.

## VILLAGE OF KALEVA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Proprietary Fund Type

The proprietary fund type (Water Enterprise Fund) is accounted for on a cost-of-service or "capital maintenance" measurement focus, using the cash basis of accounting. Generally accepted accounting principles require that the accrual accounting basis be used for governmental funds.

##### Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, demand deposits and certificates of deposit are considered to be cash equivalents.

##### Property Taxes

The village's 2003 ad valorem tax is levied and collectible on July 1, 2003. It is the village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the village operations. Property taxes are recognized when received. The 2003 State taxable valuation of village amounted to \$6,709,682, on which ad valorem taxes levied for all village purposes are \$53,678. There are 8 mills for general operations.

Uncollected real property taxes, which become delinquent October 1, are purchased by Manistee County and paid to the village in June of the subsequent year.

#### FIXED ASSETS AND DEPRECIATION

##### Governmental Fund Types

The accounting policies of the village as they relate to fixed assets are not in accordance with generally accepted accounting principles (GAAP) in that the general fixed assets are not recorded. Fixed asset purchases of the village's governmental funds are recorded as capital outlay expenditures at the time of the purchase and are required by generally accepted accounting principles to be accounted for in the general fixed assets account group. No depreciation is recorded for these general fixed assets.

Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, including roads, curbs, gutters, streets and sidewalks, drainage systems and lighting systems are not recorded.

## VILLAGE OF KALEVA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Proprietary Fund

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful life of 10-75 years using the straight-line method.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

##### Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

#### NOTE C--LEGAL COMPLIANCE

Public Act 2 of 1968, as amended, requires the legislative body to adopt a general appropriations act for the budget of the General Fund and each Special Revenue Fund. The act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The village's budget policy provides for the board to conduct a public hearing and to adopt and control the General Fund and Special Revenue Fund budgets at the activity level. The final amended budget was made after the fiscal year end.

The budget is prepared on the cash basis of accounting, which is the same basis as the financial statements.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

The village has not complied with certain provisions of Public Act 2 of 1968, as amended. Items of noncompliance are as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund		
Legislative		
Village Council	\$ 1,500	\$ 2,591
Public Works		
Street Lights	10,000	15,385
Highways, Streets and Bridges	1,000	1,030

During the year ended December 31, 2003, budgets were not adopted for the following special revenue funds:

Liquor Law Enforcement  
Renaissance  
Library

Legal Noncompliance/Violation of Finance Related Provision

1. Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a)
2. Failure to adopt an ACH policy in accordance with Pubilc Act 738 of 2002 (MCL 124.303)

NOTE D--BALANCE SHEET CASH AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities, and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

VILLAGE OF KALEVA  
NOTES TO FINANCIAL STATEMENTS

NOTE D--BALANCE SHEET CASH AND INVESTMENTS (Continued)

Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits are carried at cost. Deposits of the village are at one bank in the name of village. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in the instruments described in the preceding paragraphs. The village's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the village's cash deposits are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured	<u>395,126</u>	<u>393,388</u>
Total Cash and Deposits	<u>\$ 495,126</u>	<u>\$ 493,388</u>

NOTE F--FIXED ASSETS

Enterprise Fund--Water Fund

A summary of water fund's fixed assets at December 31, 2003 follows:

	<u>Water Fund</u>
Building	\$ 152,127
Wells	7,146
Equipment	41,361
Less: Accumulated Depreciation	<u>(107,139)</u>
Net Fixed Assets	<u>\$ 93,495</u>

Depreciation expense was \$3,100 for the Water Fund, for the year ended December 31, 2003.



# VILLAGE OF KALEVA

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT

The individual long-term debt and other general long-term obligations of the primary government of the village, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/03</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/03</u>
Village of Kaleva Installment Purchase Agreement dated September 25, 2001 with equal monthly installments of \$1,709 and an interest rate of 4.3%.	<u>\$ 43,155</u>	<u>\$ (11,096)</u>	<u>\$ 32,059</u>
Totals	<u><u>\$ 43,155</u></u>	<u><u>\$ (11,096)</u></u>	<u><u>\$ 32,059</u></u>

### Long-Term Debt Account Group

The annual interest and principal requirements of the Village of Kaleva's long-term borrowing may be summarized as follows:

Date of Issue: September 25, 2001

Amount: \$57,290

Purpose: Backhoe

<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual</u> <u>Requirements</u>
4.30%	2004	\$ 11,573	\$ 1,379	\$ 12,952
	2005	12,071	881	12,952
	2006	<u>8,415</u>	<u>219</u>	<u>8,634</u>
Total		<u><u>\$ 32,059</u></u>	<u><u>\$ 2,479</u></u>	<u><u>\$ 34,538</u></u>

## VILLAGE OF KALEVA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The village maintains one enterprise fund that provides water services. Segment information for the year ended December 31, 2003 was as follows:

	<u>Water</u>
Operating Revenues	\$ 41,577
Operating Income (Loss)	12,221
Net Income (Loss)	12,916
Land, Buildings, and Equipment	
Depreciation Expense	3,100
Net Working Capital	55,859
Total Assets	149,354
Total Equity	149,354

#### NOTE I--RISK MANAGEMENT

The Village of Kaleva is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The village participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the past three years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property pool (pool) pursuant to the provisions of Public Act 138 of 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Michigan Municipal Liability and property Pool program operates as a common risk-sharing management program for local units in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The village pays an annual premium to the Michigan Municipal Liability and Property Pool for its insurance coverage.

## VILLAGE OF KALEVA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--CONTINGENCY

In July 1998, the village obtained an infrastructure loan/grant through the Michigan Jobs Commission, a federally funded program in the amount of \$934,360. For each qualifying job created, which adds to the existing job base, the loan is reduced by \$20,000 by applying the payment first to accrued interest and then to the principal loan balance. The village anticipates that sufficient qualifying jobs will be created to reduce the loan to zero.

#### NOTE K--NEW REPORTING STANDARDS

Effective January 1, 2004, the Village of Kaleva will be required to implement several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34. Also implemented was Interpretation No. 6 Recognition and measurement of Certain Liabilities and Expenditures as of January 1, 2004.

The village has not determined the full impact that the adoption of the new standards will have on the financial statements.

**VILLAGE OF KALEVA**  
**STATEMENT OF REVENUES COLLECTED**  
**BUDGET TO ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT F**

	Budget	Actual	Variance Favorable (Unfavorable)
<b><u>REVENUES</u></b>			
Property Taxes			
Current	\$ 38,000	\$ 40,061	\$ 2,061
Delinquent	7,000	9,300	2,300
Tax Reversion		42	42
Personal Property	2,000	2,172	172
Total Property Taxes	47,000	51,575	4,575
Licenses and Permits			
Land Use Permits	300	155	(145)
Total Licenses and Permits	300	155	(145)
State Grants			
Revenue Sharing	45,400	48,508	3,108
Total State Grants	45,400	48,508	3,108
Charge for Service			
Copies	-	20	20
Total Charges for Services	-	20	20
Fines and Forfeitures			
Statutory Fines	-	150	150
Total Fines and Forfeitures	-	150	150
Interest and Royalties			
Vehicle Rental	16,000	33,430	17,430
Interest Earned	-	850	850
Royalties	-	136	136
Total Interest and Rents	16,000	34,416	18,416
Other Revenues			
Library	2,400	-	(2,400)
Sale of Fixed Assets	-	75	75
Private Donation	1,200	25	(1,175)
Total Other Revenues	3,600	100	(3,500)
Total Revenue	\$ 112,300	\$ 134,924	\$ 22,624

**VILLAGE OF KALEVA**  
**STATEMENT OF EXPENDITURES PAID**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT G**

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Village Council	\$ 1,500	\$ 2,591	\$ (1,091)
Total Legislative	1,500	2,591	(1,091)
General Government			
President	1,100	1,030	70
Audit	800	765	35
Legal	3,000	1,788	1,212
Elections	900		900
Clerk	7,000	6,884	116
Treasurer	2,850	2,608	242
Building and Grounds	20,680	12,642	8,038
Other General Services	3,750	1,689	2,061
Total General Government	40,080	27,406	12,674
Public Safety			
Fire	120	120	-
Planning	3,120	2,478	642
Total Public Safety	3,240	2,598	642
Public Works			
Department of Public Works	15,700	10,538	5,162
Highways, Streets and Bridges not Act 51	6,650	2,802	3,848
Street Lights	10,000	15,385	(5,385)
Highways, Streets and Bridges	1,000	1,030	(30)
Total Public Works	33,350	29,755	3,595
Recreational and Cultural			
Library	2,750	859	1,891
Total Recreational and Cultural	2,750	859	1,891
Other			
Other--Payroll Taxes	4,500	1,263	3,237
Insurance	7,800	1,957	5,843
Reimbursements	1,000	910	90
Total Other	13,300	4,130	9,170
Capital Outlay			
Office Equipment	3,000	599	2,401
Total Capital Outlay	3,000	599	2,401
Debt Service			
Principal Payments	12,000	11,096	904
Interest Expense	2,000	1,856	144
Total Debt Service	14,000	12,952	1,048
Total Expenditures	111,220	80,890	30,330
Other Financing Sources			
Operating Transfers (Out)	15,000	10,000	5,000
Total Other Financing Source	15,000	10,000	5,000
Total Expenditures	\$ 126,220	\$ 90,890	\$ 35,330

**VILLAGE OF KALEVA  
COMBINING STATEMENT OF ASSETS AND  
LIABILITIES ARISING FROM CASH TRANSACTIONS  
DECEMBER 31, 2003**

**EXHIBIT H**

	Major Streets	Local Street	Park	Liquor Law Enforcement	Library	Renaissance	Total
<b><u>ASSETS</u></b>							
Cash	\$ 65,839	\$ 17,214	\$ 5,177	-	\$ 154,775	\$ 38,816	\$ 281,821
Total Assets	\$ 65,839	\$ 17,214	\$ 5,177	\$ -	\$ 154,775	\$ 38,816	\$ 281,821
<b><u>LIABILITIES AND FUND EQUITY</u></b>							
Liabilities							-
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Equity							
Fund Balance	65,839	17,214	5,177	-	154,775	38,816	281,821
Total Fund Equity	65,839	17,214	5,177	-	154,775	38,816	281,821
Total Liabilities and Fund Equity	\$ 65,839	\$ 17,214	\$ 5,177	\$ -	\$ 154,775	\$ 38,816	\$ 281,821

**VILLAGE OF KALEVA**  
**COMBINING STATEMENT OF REVENUES COLLECTED**  
**EXPENDITURES PAID AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended December 31, 2004**

**EXHIBIT I**

	Major Streets	Local Streets	Park	Liquor Law	Library	Renaissance	Total
Revenues							
State Grants	\$ 52,191	\$ 19,083		\$ 683			\$ 71,957
Charges for Services			\$ 2,715				2,715
Interest	701	66				\$ 205	972
Other					\$ 167,284	500	167,784
Total Revenue	52,892	19,149	2,715	683	167,284	705	243,428
Expenditures							
Public Safety				683			683
Public Works	44,233	26,323					70,556
Recreational and Cultural			15,196				15,196
Capital Outlay					37,617		37,617
Total Expenditures	44,233	26,323	15,196	683	37,617	-	124,052
Excess of Revenues Over (Under) Expenditures	8,659	(7,174)	(12,481)	-	129,667	705	119,376
Other Financing Sources (Uses) Operating Transfers In			10,000				10,000
Total Other Financing Sources (Uses)	-	-	10,000	-	-	-	10,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	8,659	(7,174)	(2,481)	-	129,667	705	129,376
Fund Balance--January 1, 2003	57,180	24,388	7,658	-	25,108	38,111	152,445
Fund Balance--December 31, 2003	\$ 65,839	\$ 17,214	\$ 5,177	\$ -	\$ 154,775	\$ 38,816	\$ 281,821



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

September 30, 2004

Village Council  
Village of Kaleva  
Manistee County  
P.O. Box 21  
Kaleva, Michigan 49645

RE: Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Village of Kaleva, Manistee County, Michigan, as of and for the year ended December 31, 2003 and have issued our report thereon dated September 30, 2004. As described more fully in Note B, the financial statements referred to above are presented on a cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Village of Kaleva's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance, which we have reported to management in the accompanying comments and recommendations.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Village of Kaleva's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial



reporting that, in our judgment, could adversely affect the Village of Kaleva's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL INTERNAL CONTROL WEAKNESSES

Management (Village Council) is responsible for establishing and maintaining a system of internal controls over the accounting procedures. Our study and evaluation of internal control disclosed the following conditions that we believe to be material weaknesses:

##### General Ledger

*Condition:* The village does not maintain a general ledger.

*Criteria:* The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the single binder in which all funds and accounts of the village are maintained. Entries in the general ledger are made only from: (1) the receipts register; (2) disbursements register; and (3) the journal entries.

*Cause and Effect:* Failure to post complete accounting records on a timely basis may result in the following:

1. The financial condition of the village may not be readily determined.
2. The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The board may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

*Recommendation:* We recommend that the village establish monthly procedures to assure that all transactions are posted properly to a general ledger and that the general ledger is in balance with the respective subsidiary accounts.

##### Issuance and Reconciliation of Receipts for All Revenue Received

*Condition:* Since 1999, the village does not prepare receipts for all money collected, nor does it have any formal policy or procedures for receipting in revenue. The receipts the village writes for customers who pay their bills in person are generically prepared receipts.

*Criteria:* Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

1. Official receipts are to be issued for each collection whether received from an individual, the state, the county, or another local unit department.
2. Numerically controlled (printer pre-numbered) three-part official receipts with the name of the local unit printed on the receipt must be issued for all collections.
3. The use of generic, store-bought receipts is strictly prohibited.
4. "Cash" or "check" as the method of payment must be indicated on the receipt.
5. The receipt must identify the individual receiving payment.
6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
7. Checks must be restrictively endorsed at the point and time of collection.
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

*Recommendation:* We recommend that receipts be written for all revenue received from whatever source. Further, the village must maintain a complete and accurate receipt register. Each month the bank deposits should be reconciled with the receipts issued and the cash balance in the general ledger.

#### Cash Basis of Accounting

*Condition:* The Village of Kaleva is currently using the cash basis of accounting, which does not comply with Generally Accepted Accounting Principles (GAAP). In the cash basis of accounting, certain revenue and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

*Criteria:* GAAP and Michigan Department of Treasury require governmental funds to be maintained on a modified accrual basis of accounting. The modified accrual basis of accounting requires revenue to be recognized when earned and expenditures when incurred. It also requires the establishment of accounts receivable and accounts payable be established to properly match the fiscal year's revenues and expenses.

*Recommendation:* We recommend that the village adopt the basis of accounting that complies with GAAP. Accruals should be reconciled to subsidiary records to support the balances in the respective accounts.

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

##### Independent Review of Water Revenues

*Condition:* The treasurer is responsible for preparing the water bills, opening the mail, collecting money, preparing receipts, posting the water payments to the computer, preparing the bank deposits and making bank deposits. There are no independent reviews of the amounts collected with the amounts actually deposited. Also, under the current computer program used by the village, no method exists to print reports once a billing period has ended.

*Criteria:* According to the Uniform Accounting Procedures Manual, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted. Also, when possible, collections must be reconciled by an individual not involved in the receipt process. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

*Recommendation:* We recommend that a person independent of the water receipting process verify the collections received through the mail and over the counter to the amounts posted to the computer and bank deposits. We also recommend that the village invest in a computer program that will be able to provide the reports necessary to perform the independent reviews.

##### General Fixed Assets

*Condition:* The village does not maintain adequate internal controls for fixed assets and a general fixed asset account group is not maintained in accordance with generally accepted accounting principles.

*Criteria:* It is the responsibility of the village to update the fixed assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the fixed asset records. Disposals should equal the reductions to the fixed asset records.

*Recommendation:* We recommend that the village develop a property management system that includes all of the following steps:

- 1) An inventory of all fixed assets owned by the village should be taken and included in the permanent records of the village and updated annually.
- 2) All assets owned by the village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the village to be removed or used by unauthorized personnel.

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

- 3) As part of the property management system, the village should keep records on all assets owned by the village, which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset

- 4) Capital assets that meet the village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires fixed assets to be included in the financial statements of the village. Compliance with GASB No. 34 is mandated for the village for fiscal year ending June 30, 2004 and after.

#### Check Signing

*Condition:* We found that the treasurer is the only official who signs checks and the checks only allow for one signature.

*Criteria:* According to the Michigan Department of Treasury, Uniform Accounting Procedures Manual, it states: "Dual signatures are required for all checking accounts. The dual signatures MUST be the clerk or deputy clerk and the treasurer or deputy treasurer."

*Recommendation:* We recommend the village obtain new checks that will allow for dual check signers and that one official from the clerk and one from the treasurer sign checks.

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### STATUTORY NONCOMPLIANCE

##### Adoption of Village General Appropriation Acts

*Condition:* The Village of Kaleva did not adopt budgets for the Renaissance Fund, Liquor Law Fund and the Library Fund. The budgets that were adopted by the board did not contain information from the most recently completed fiscal year and did not contain information from the current fiscal year.

*Criteria:* MCL 141.435 states:

- (1) The recommended budget shall include at least the following:
  - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
  - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
  - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
  - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
  - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
  - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
  - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

MCL 141.436 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.

*Recommendation:* We recommend the village to comply with the above statutory budgeting requirements as required by law.

##### Expenditures in Excess of Appropriations--Village's Budgetary Funds

*Condition:* Our examination of procedures used by the village to adopt and maintain operating budgets for the village's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### STATUTORY NONCOMPLIANCE (Continued)

The Village's 2003 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the village. As detailed below, actual 2003 expenditures exceeded the board's approved budget allocations for several general fund activities.

During the fiscal year ended December 31, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative			
Village Council	\$ 1,500	\$ 2,591	\$ (1,091)
Public Works			
Street Lights	10,000	15,385	(5,385)
Highways, Streets and Bridges	1,000	1,030	(30)

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

*Recommendation:* We recommend that the village develop budgetary control procedures for the General Fund and Special Revenue Funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

#### Electronic Transactions of Public Funds

*Condition:* The Village of Kaleva electronically transfers funds for payroll withholdings without legal authority.

*Criteria:* According to MCL 124.303:

“A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.

## VILLAGE OF KALEVA

### COMMENTS AND RECOMMENDATIONS

#### STATUTORY NONCOMPLIANCE (Continued)

- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

*Recommendation:* We recommend the village council adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.